

SRA Accounts Rules – Final Impact Assessment

Introduction

1. We published our initial regulatory impact assessment in June 2016¹. In it we set out our assessment of the potential impacts on firms and consumers resulting from the changes we proposed to the Accounts Rules². We aimed to assess these changes with the regulatory objectives, the better regulation principles and our wider equalities duty in mind. In our consultation we asked respondents to identify any specific risks or impacts to help inform our final position.
2. Very few respondents commented specifically on our initial impact assessment or provided other information that would assist us in finalising our impact assessment. The low level of response does not however mean there will be no impact on firms or consumers.
3. In response to the proposals that were included in our consultation, the Law Society stated that we should undertake research (if it does not already have the data), in order to forecast any savings or costs to the profession. This should include additional costs that would be incurred by firms through updating computer software and training for staff. They also suggested that we should undertake research to develop an understanding of how the changes are likely to affect clients, particularly vulnerable clients.
4. A large proportion of SRA authorised firms hold or receive client money (as at 7 March 2017, the renewal exercise for 2016/17 confirmed that there were 7665 firms holding client money). Any changes we make will therefore impact the majority of firms that we regulate. We have considered the potential impacts of our decisions in finalising our policy position and these are set out in this impact assessment. The impact on firms has been a key consideration in our revised approach to the definition of client money.
5. In summary, we will implement changes to the SRA Accounts Rules which result in:
 - simplification of the Accounts Rules by removing prescriptive rules, timeframes and reducing duplication with other sections of the Handbook
 - a simpler definition whereby advance payments for fees and unpaid disbursements are considered client money until the point at which they are billed and there is an exemption for firms that only hold these categories of money provided that the firm has informed the client in advance of where and how the money will be held
 - providing an alternative to holding client money by allowing firms to use Third Party Managed Accounts (TPMA).
6. In the consultation we proposed to change the definition of client money. Feedback from the consultation exercise shows that this would have been the biggest change for firms from the current Accounts Rules by making firms change their accounting systems. Engagement with firms (with and without client accounts) and other key stakeholders (including representative groups, banks, reporting accountants, software providers,

¹ <http://www.sra.org.uk/documents/SRA/consultations/accounts-rules-impact-assessment.pdf>

² <http://www.sra.org.uk/documents/SRA/consultations/accounts-rule-consultation.pdf>

existing and prospective TPMA providers), has provided valuable insight into the potential impacts of our proposal. This feedback has helped in developing our revised proposal on the definition of client money.

7. The table below summarises how our policy positions has evolved from the position we consulted on in June 2016 to our final decisions:

Accounts Rules		
Proposal	What has changed post consultation?	What does this mean?
<p>Change in the definition of client money</p> <p>We consulted on changing the definition of client money for the following reasons:</p> <p>a. to simplify the rules so that all money paid in advance for fees and disbursements for which the solicitor is liable can be treated as the firm's money. Any money relating to payments for which the client is liable would continue to be treated as client money</p> <p>b. to allow firms greater flexibility and ensure that firms do not have to operate a client account unless they need one for handling transactional money (as opposed to only advance fees and payments for services). This would bring our rules in line with other sectors and allow for more diverse business models</p>	<p>Following consideration of feedback from consultation, we have decided to implement an alternative position which delivers many of the benefits without having an adverse impact in terms of costs on those firms that do not wish to change.</p> <p>We have:</p> <ul style="list-style-type: none"> included in the definition of client money all money paid in advance for fees and unpaid disbursements prior to delivery of a bill for the same included a separate exemption so that where the only client money that is received is advance payments for fees and unpaid disbursements, that money does not have to be held in client account provided the firm has informed the client in advance of where and how the money will be held 	<p>Responses to the consultation and other feedback suggested that firms would have to make significant changes to their systems and how their staff were trained. The proposed change means that the vast majority of firms that want to continue operating a client account, as they do now, can do so with no change to their systems and processes (and the associated costs).</p> <p>However the exemption allows flexibility for those firms that only hold a limited category of client money and do not wish to operate a client account. Firms that rely on this exemption will need to ensure that clients are properly advised and they understand the impacts of money being held outside of a client account. This may impact on how firms manage their publicity and marketing material and other information that might need to be given to clients. It may also impact on firm systems but this will be a choice for firms to make.</p>
Simplification of the	We have made some	We expect firms that are fully

<p>Accounts Rules</p> <ul style="list-style-type: none"> • Removal of prescription (for example specific time limits for moving money between office and client account) • More flexibility for firms as to how they comply • Rules reduced from over 40 pages to 7 pages 	<p>changes to the draft rules to reflect points raised in response to the consultation. These do not affect the rules substantively other than the position on the definition of client money.</p> <p>We have removed the requirement on firms to obtain a cease to hold report in the rules. We have instead provided a rule that allows us to require a firm to submit one if we believe that it is necessary to check compliance with the rules or to ensure that client money has been properly dealt with when a firm closes and stops maintaining a client account.</p> <p>We have simplified the requirements relating to payments from the Legal Aid Agency (LAA) and confirmed that all money from the LAA for the firms costs can be held in the firm's business account.</p>	<p>compliant with the current rules will remain compliant under the new rules. The new rules provide flexibility for firms in terms of how they develop their systems and controls, for example, to ensure 'prompt' payments to clients and others. We expect that some firms will continue to use the '14' and '2' day rule as a way to meet our requirements. This is a matter for firms to consider in the particular circumstances.</p> <p>Changes to the requirement to obtain a cease to hold report are intended to remove onerous consequences where, for example, a firm changes its legal status and is required to obtain a cease to hold report for first entity as it ceases to hold client money under that style of practice. However, where a firm closes and there is no intention to continue trading or any circumstances which give rise to a concern, we retain the power to request a report - this will help confirm that client monies have been properly accounted for to client's and other parties.</p> <p>We will develop our toolkit which will incorporate guidance and other resources for firms. Examples of guidance that we will publish include:</p> <ul style="list-style-type: none"> • How to deal with residual balances • The prohibition on the use of client account as a banking facility • Requirement to do something "promptly" <p>We will also develop guidance on the exemption provided in the definition of client money.</p>
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<p>Use of TPMA</p> <ul style="list-style-type: none"> • Allowing solicitors to use Third Party Managed Accounts which are regulated by the FCA (either as an Authorised Payment Institution (API) or a Small Payment Institution (SPI)) • We will not regulate these accounts as the money is held by a third party and not the solicitor. TPMA are operated upon terms agreed by the third party, solicitor and the client • We will not endorse certain products or set criteria other than that the TPMA must be an API or SPI • Solicitors will be able to use TPMA for all types of client money and there is a duty to ensure the client understands the arrangement. 	<p>No change other than minor drafting changes to reflect points raised in response to the consultation. These do not affect the rules substantively.</p>	<p>This will offer an option for firms that do not wish to hold client money - either across their client base or for individual clients. It will be for firms to consider the potential costs of using a TPMA.</p>
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Summary of likely impacts

8. The table below summarises key impacts that could occur as a consequence of our reforms. We have then set out some more detail on the impacts of the reforms in the remainder of this paper.

	Firms	Consumers
<p>Simplification of the rules</p>	<p>↑ Easier to navigate and understand by removing ambiguous terms</p> <p>↑ Increased flexibility and less prescriptive and onerous rules</p> <p>↑ Opportunity to develop bespoke systems that meet the needs of the</p>	<p>↑ Clarity on how client money is held/received</p> <p>↑ Enhanced consumer confidence</p> <p>↑ Improved understanding of regulatory obligations on solicitors and protections for themselves</p>

	<ul style="list-style-type: none"> ↑ firm and its clients ↑ Reduction in frequency of updates to the rules ↑ Opportunity to extract more value from their accountant's report ↓ One-off transitional ('familiarisation') cost for all firms ↓ Uncertainty about what constitutes compliance 	<ul style="list-style-type: none"> ↑ Maintaining confidence that client money has to be protected ↑ SRA ability to call for evidence to assess and confirm compliance ↑ Continued obligation to correct breaches upon discovery
Revised definition of client money	<ul style="list-style-type: none"> ↑ Firms that operate a client account can continue to operate as they are ↑ Clarity as to what is defined as client money ↑ Firms that rely on the exemption may benefit from reduced compliance costs including potential PII and operational savings ↑ Firms that do not operate a client account will be able to receive advance payment for fees and disbursements 	<ul style="list-style-type: none"> ↑ Informed about how client money is held and the protections that apply ↑ More options for payment of fees and disbursements ↑ Requirement on firms to maintain accurate, contemporaneous and chronological records (even if seeking to rely on the exemption) ↓ Where firms rely on the exemption, clients may be impacted if a firm becomes insolvent - see separate consumer impact table below (Appendix 1)
Use of TPMA	<ul style="list-style-type: none"> ↑ Choice and control for all involved ↑ Clarity of regulatory position ↑ No requirement to obtain an accountant's report ↑ Removal of costs associated with operating a client account ↑ Reduced risk of being subject to harmful criminal activity e.g. cybercrime ↑ Possible reduction in PII premiums due to not holding client money 	<ul style="list-style-type: none"> ↑ Control of transactions through requirement to agree to the terms of the TPMA provider - for example a contractual right to have monies repaid ↑ Reduced likelihood of money being stolen/not accounted for by firm

Proposal: Simplification of the rules

9. In our initial impact assessment we noted that the current Accounts Rules are prescriptive and complex and in places do not focus on the key risks to client money they seek to mitigate. As the Accounts Rules have developed over many years, much of this prescription has been incorporated to address specific issues and is based upon traditional models of practice.
10. The new rules have been developed to allow flexibility for existing firms but also for new entrants. They maintain focus on our key objective of protecting client money by ensuring that there are proper controls in place.
11. The most common breaches of the current Accounts Rules include:
 - a. Failure to file an accountant's report on time
 - b. Failure to account to client or others
 - c. Shortage on client account
12. These will continue to be breaches under the new rules. We have however, removed scope in the rules for minor "technical" breaches, for example failing to pay money into the firm's business account within a certain number of days, as firms will now need to ensure that they deal with the movement of money promptly. These breaches have in the past resulted in qualified accountant's reports which when considered by us result in no action as there is no evidence of consumer harm or a malicious endeavour to breach the rules³. Respondents to the consultation and other stakeholders have supported the decision to remove prescriptive rules that currently result in 'technical' breaches. This will have a positive effect on all firms, individual solicitors and support the role of the reporting accountant. We will continue to review the types of firms that continue to breach the rules and what can be done to support a better understanding of the standards required. It must be noted however, that guidance and support for firms (as is the case with the current, prescriptive rules) will not eradicate dishonest behaviour or a complete disregard for the rules.
13. As the revised rules continue to reflect key requirements on firms to ensure that client money is protected, we maintain our view that by simplifying the requirements on firms there is no reduction or dilution in obligations on firms, their managers or employees to keep money safe. Simplified rules will not eradicate dishonest behaviour or the failure to act in the client's best interests and we will continue to take enforcement action, where appropriate, to ensure consumers are protected. We do however, consider that introducing a rule which allows us to call for information at any stage to check compliance, for example, a cease to hold report, is a more proportionate approach to regulation that allows us to use our resources more effectively and target risks to client money.
14. We will share our toolkit with consumer representative bodies so that information can be shared with consumers. We hope that this will assist people in making informed decisions and have an understanding of what 'good' looks like in terms of compliance with our rules. This helps demonstrate that we are acting in accordance with our

³ In the period of June 2012 to December 2013 over 50 per cent of the c.9000 firms that held client money received a qualified report. Of this number only 179 were referred for consideration for further regulatory action

regulatory objective to protect and promote the interests of consumers and support the constitutional principle of the rule of law.

Proposal: a new definition of client money and client liability

15. As we set out in the consultation response we have revised our approach to the definition of client money. Our revised approach means that:
- we have simplified the definition of client money and addressed the confusion that exists around the issue of agreed and fixed fees
 - the vast majority of firms can carry on as they are now and not incur costs of systems changes and training (unless they choose to)
 - there is additional flexibility for firms that only hold money in relation to advance payments for fees and unpaid disbursements not to operate a client account provided that the client is informed in advance of where and how the money will be held.

How does the revised definition impact on consumers?

16. These changes may lead to greater variety in business models which will provide more choice to consumers.
17. Where a firm continues to operate a client account, the consumer protections will be the same as now. Money held in client account is kept separate from the firm's money. In the event of insolvency that money cannot be accessed by the insolvency practitioner as their statutory powers only extend to the assets actually owned by the insolvent person. In the event of theft (either by the firm or through cyber crime), eligible consumers will be able to make a claim on our Compensation Fund.
18. Where a firm does not operate a client account (because they intend to rely on the exemption), they will need to ensure that the client is given sufficient information to make an informed decision. A key risk that will need to be identified and properly understood by consumers is what happens in the event of insolvency as the money would not be separated. In the event that a firm fails before the work has been done, the client would be treated like any other creditor. This impact could be greater for vulnerable consumers who might not have easy access to additional funds to pay for services should the original firm become insolvent. However, it is important to be clear that our discretion to make payments from the Compensation Fund is not limited to money that was lost from a client account. The client⁴ would, therefore, be able to make a claim on the Compensation Fund in these circumstances. Clients could also claim on the Compensation Fund in the event of theft. In practice it therefore, does not matter where the 'lost' money was being held. The protections we have in place will apply regardless of whether the lost money was being held in a client account or not.
19. In both cases if the work is not completed and the firm refuses to complete the work or return the money, eligible clients would be able to seek redress via the Legal Ombudsman (LeO).

⁴ Provided the client is eligible to make a claim

20. The examples we provided in the consultation paper set out a number of scenarios and the potential consumer protections. We have revised these scenarios (**see Appendix 1 below**) so to reflect the two types of firms that might operate under the revised definition of client money and what protections are likely to be in place in the event of crystallised risk.

Proposal: permitting authorised firms to use alternatives to holding client money such as TPMA

21. Many respondents who supported the introduction of TPMAs in principle raised questions regarding the uncertainty surrounding TPMAs, as there is currently not a strong market of providers.
22. As noted in our initial impact assessment, the success of the TPMA market will depend on TPMA providers offering a service in a way that is commercially attractive to firms (and their clients) as an alternative to holding a client account, and which offers sufficient speed and security of transactions.
23. We believe that small firms and new entrants are most likely to take advantage of TPMA as this removes the burden of operating a client account and shifts compliance with detailed regulatory obligations on to the TPMA provider to ensure that money is kept safe. Large and medium sized firms may also consider using TPMA where they only occasionally hold client money. Any firm that considers using a TPMA will need to ensure that they comply with the SRA Principles and therefore, be satisfied that the arrangements are in the client's interests.
24. The misuse of client money is found across a wide range of firms, for example, practices failing to detect a rogue individual or group through weak prevention systems or where money is sometimes used to prop up the business⁵. We will monitor developments and collate information on whether the holding of client money in a TPMA removes these risks and also whether there is increased opportunity for small firms and new entrants to compete in a market that allows for innovation and flexibility in approach.
25. We will also continue to work with professional indemnity insurers to review whether the use of TPMA can be seen as a mechanism for reducing firm exposure to risks such as cybercrime or poor systems and controls. Where risks are managed through the use of a TPMA we will look to see if this results in any consequential reduction in insurance premiums.

Statement in respect of the Regulatory Objectives

26. This section comprises an assessment of the proposed changes to the Accounts Rules against our regulatory objectives, as also considered in light of our public sector equality duty and the better regulation principles. We have evaluated the changes to the Accounts Rules as a whole.

Protecting and promoting the interests of consumers	Through the Accounts Rules we regulate the holding of client money in order to protect the interests of consumers of legal services. This
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⁵ Between 2012-2015, approximately 30% of all the SRA's interventions involved suspected dishonesty and nearly half included accounts rule breaches amongst their grounds

	<p>is achieved by an oversight regime which needs to prevent or reduce unacceptable risks. Or to prevent unacceptable harm if risks materialise. It should therefore be proportionate to those risks. Simpler rules which focus on the requirement to keep client money safe continue to ensure an adequate level of protection for clients, but will not impose unnecessary burdens on those we regulate (which can have a negative impact on competition that could benefit consumers. They are also clearer for consumers to understand.</p> <p>A revised definition of client money allows firms to engage with clients in a way which means that consumers will need to be informed of the protections that apply depending on how money is held. This puts an onus on the firm to consider the needs of the client and any vulnerabilities that could impact on a client's decision. The new definition is also much clearer as to what is client money and the point at which it can be taken as the firm's - i.e. when a bill has been issued.</p> <p>The use of a TPMA increases the level of control a client has in terms of the movement of money as they will be required to agree to the terms on which the money is held by a third party.</p>
<p>Improving access to justice</p>	<p>Our new simpler rules and revised definition of client money allow flexibility for firms but also highlight the need to ensure that proper controls are in place to protect client money. The revised rules will reduce burdens on firms, as they will be allowed to structure compliance in a way that reflects their business practice and the needs of their clients. This may be a particular benefit to small firms and clients looking for firms that offer innovative ways of delivering services and have effective systems and controls to protect client money.</p> <p>We will work with consumer representative bodies to look at how information can be accessed easily and also use web based platforms such as Legal Choices to host information for consumers. This will reduce</p>

	<p>search costs which can have a positive impact on access to legal services.</p>
<p>Promoting competition in the provision of services</p>	<p>It is envisaged that removing unnecessary regulatory burdens that exist because of our current arrangements will help firms devote resources to the quality and competitiveness of their services. Firms will benefit from the removal of prescription that currently dictates for example, the number of days in which certain types of money must be moved from one account to another.</p> <p>New firms will also be able to benefit from our new arrangements as they may have previously been put off by prescriptive and inflexible rules. Firms will also be able to consider different approaches for individual clients and their business generally.</p>
<p>Encouraging an independent, strong, diverse and effective legal profession</p>	<p>The changes will benefit all firms as it is envisaged that our new rules will reduce costs that are linked to the current level of prescription. In addition, firms that are satisfied that their arrangements are currently compliant will not have to change.</p> <p>Firms that decide to use TPMA's or can benefit from the exemption of operating a client account are likely to benefit from a reduction in the time and resource that is currently attached to ensuring compliance with the accounts rules.</p> <p>As noted above, key breaches will remain under the new rules and it may be that certain types of firms will continue to make up the population of firms that are in breach. We will work with the profession to inform the content of the toolkit that we will help support compliance.</p>
<p>Increasing public understanding of the citizen's legal rights and duties</p>	<p>Firms that operate within the exemption or use a TPMA will need to ensure that their clients are informed of any associated risks and of the protections that apply. This is enhanced through requirements set out in the new Codes of Conduct which require clients to be informed of the protections available to them. This clarity and transparency about rights and</p>

	responsibilities will increase confidence in the profession and reduce scope for complaints.
Promoting and maintaining adherence to the professional principles	<p>The primary objective of the accounts rules has been and remains to ensure that client money is kept safe. The rules therefore, continue to promote the need for all authorised firms to act with integrity, maintain proper standards of work, and act in their clients' best interests. By removing prescription from the rules, firms will now need to properly assess the needs of their clients and how they ensure compliance rather than relying on a set of rules which in effect become a tick-box exercise. Firms that are compliant and satisfied that their systems and controls work will not have to change unless they want to.</p> <p>Knowing that client money is safe and that firms and individuals will be adhering to the SRA Principles and the Codes of Conduct will give consumers comfort and also allow firms to respond to changing environments in a positive way.</p>

Statement in respect of the Better Regulation Principles

28. We believe that these measures support the following better regulation principles. In particular the arrangements are targeted and proportionate by focusing on the key requirement to ensure that client money is protected. The proposals continue to ensure that those that we regulate are fully accountable for significant breaches of the rules - this will ensure that we can take targeted action against those that act in breach.

Appendix 1

Firm A	Firm B
<p>Firm A holds:</p> <ul style="list-style-type: none"> • monies relating to the client's matter • monies for which the client is liable, for example, Stamp Duty in a conveyancing transaction • advance payments for fees and professional disbursements <p>and, operates a client account.</p>	<p>Firm B holds:</p> <ul style="list-style-type: none"> • only advance payments for fees and unpaid disbursements • does not hold any other monies for clients <p>and, does not operate a client account.</p>

Risk - failure to pay disbursements on time

Firm A

Firm A asks a client to pay in advance for professional disbursements (counsel fees, medical experts etc). The money received is paid into client account as the firm also holds other types of client money.

The firm severely delays in making payment, either due to poor systems or because they hold the money for longer than necessary as they obtain a better rate of interest on money held in a client account.

Impacts	Mitigations
<ul style="list-style-type: none"> • Potential delay in that client's matter which may lead to that person not receiving an outcome as soon as they might. • The expert refuses to take on legal work in the future with broader detriment to access to good quality advice/services. • While the firm is liable for payment, there is a risk that client has to pay the expert directly (or via instructing another solicitor) to ensure their case can be progressed. • In the event that the firm becomes insolvent, this money will be protected as it will be held in the client account (it cannot be absorbed as part of the insolvent estate). 	<ul style="list-style-type: none"> • Delay in payment reported to LeO as a failure to deal with client money promptly and to act in the best interests of the client and redress for financial loss and distress and inconvenience (up to £50k) or claim on the solicitor's PII for negligence. • SRA investigation looking at firm's systems and processes and compliance with SRA Accounts Rules. • In insolvency, the client can seek return of payment via the appointed insolvency practitioner/solicitor manager.

Risk - failure to pay disbursements on time

Firm B

The firm asks a client to pay in advance for unpaid disbursements (counsel fees, medical expert etc.). The money received goes straight into the firm's business account.

However, the firm has exceeded its overdraft and as a result the expert/counsel is not paid for several months.

Impacts	Mitigations
<ul style="list-style-type: none"> • Potential delay in the client's matter which may lead to them not receiving an outcome as soon as they might. • The expert refuses to take on legal work in the future with broader detriment to access to good quality advice/services. • While the firm is liable for payment, there is a risk that client may have to pay the expert direct (or via instructing another solicitor) to ensure their case can be progressed. • In the event the firm becomes insolvent, this money will not be protected as it will be absorbed as part of the insolvent estate. The client will therefore, be treated as an unsecured creditor. 	<ul style="list-style-type: none"> • The firm is not required to hold money received in a client account but will need to have systems in place to ensure that client matters are progressed. They will also be required to ensure adequate records are kept. Some firms may choose to operate a second business account for holding professional disbursements. • Delay in payment reported to LeO as a failure to act in the best interests of the client and redress for financial loss and distress and inconvenience (up to £50k) or claim on the solicitor's PII for negligence. • If payment was made by credit card and delay in service derives from delay in payment, section 75 of Consumer Credit Act may apply if amount is between £100 and £30,000. • Under the current scope of the Compensation Fund, eligible clients could in the circumstances of insolvency make a claim on the Fund.

Risk - firm receives/holds money and becomes insolvent

Firm A

The firm holds money for conveyancing and personal injury work and also takes advance payments for fees and for payments to third parties, such as Counsel's fees. The money is held in the firm's client account.

The firm enters into financial difficulties and becomes insolvent. The firm stops trading.

Impacts	Mitigations
<ul style="list-style-type: none"> • Several clients are left out of pocket and without access to legal advice. • Client accounts cannot be reconciled as the firm has failed to maintain proper records and systems. • The experts and other third parties are not paid and may have to be paid again by the client if the work is to be completed. 	<ul style="list-style-type: none"> • Money that is held in client account will be protected as it cannot be used to realise the insolvent estate. The client can seek return of payment via the appointed insolvency practitioner/solicitor manager. • Claim on Compensation Fund for money lost by clients that are eligible to make a claim (current position). • Negligence claim on solicitor's PII. • Redress mechanism via LeO for financial loss and distress and inconvenience (up to £50k). • If payment made by credit card and is between £100 and £30,000 s75 of Consumer Credit Act applies – could be part payment or instalments. • Report to SRA as the firm has failed to safeguard money belonging to clients nor acted in the best interests of the client (standards in the Codes of Conduct).

Risk - firm receives/holds money and becomes insolvent

Firm B

The firm holds money for conveyancing and personal injury work and also takes advance payments for fees and for payments to third parties, such as Counsel's fees. The money is held in the firm's business account.

The firm enters into financial difficulties and becomes insolvent. The firm stops trading.

Impacts	Mitigations
<ul style="list-style-type: none"> • Several clients are left out of pocket and without access to legal advice. • Clients become unsecured creditors as any money held in business account is used to realise the insolvent estate. This potentially increases the risk of claims on the compensation fund compared to Firm A scenario. • The experts and other third parties are not paid and may have to be paid again by the client if the work is to be completed. 	<ul style="list-style-type: none"> • Clients could claim against the insolvent estate. • Claim on Compensation Fund for money lost by clients that are eligible to make a claim (current position). • Negligence claim on solicitor's PII. • Redress mechanism via LeO for financial loss and distress and inconvenience (up to £50k). • If payment made by credit card and is between £100 and £30,000 s75 of Consumer Credit Act applies – could be part payment or instalments. • Report to us as the firm has failed to safeguard money belonging to clients nor acted in the best interests of the client (standards in the Codes of Conduct).

Risk - dishonesty

Firm A

Partners in the firm have been transferring significant amounts client money – mainly probate funds and personal injury damages - from client account to pay for fictitious disbursements or for unjustifiable sums on account of costs. The money has actually been used to pay for personal expenses that have no relation to the clients concerned.

Impacts	Mitigations
<ul style="list-style-type: none"> • Clients suffer loss - financial and emotional distress. • Work has failed to be done and in urgent cases, clients will need to seek alternative representation. 	<ul style="list-style-type: none"> • SRA intervention into firm (grounds - suspected dishonesty and in the public interest). • Claims against the Statutory Trust for clients whose accounts can be reconciled and money is left in the practice accounts at the point of intervention. • Claim on Compensation Fund by eligible claimants for monies lost (current position). • Redress mechanism via LeO for financial loss and distress and inconvenience (up to £50k), payment by insurer in case of intervention and where there is an innocent partner. • If payment made by credit card and is between £100 and £30,000 Section 75 of Consumer Credit Act applies. • Enforcement action after investigation alleging dishonesty and failure to safeguard money and assets entrusted by the client.

Risk - dishonesty

Firm B

Partners in the firm use money received to pay for personal expenses and other non-client purposes. In this scenario, there would not be a regulatory response as the firm is entitled to treat this money as their own.

However, if there is a concern that the firm has overcharged and in some cases sought payment from clients where there was no intention of doing the work. In these circumstances, the situation below would apply.

Impacts	Mitigations
<ul style="list-style-type: none"> • Clients suffer loss - financial and emotional distress. • Work has failed to be done and in urgent cases, clients will need to seek alternative representation. 	<ul style="list-style-type: none"> • SRA intervention into firm (grounds - suspected dishonesty and in the public interest). • Claim on the statutory trust will apply for clients whose accounts can be reconciled and money is left in the practice accounts at the point of intervention. • Claim on Compensation Fund by eligible claimants for monies lost (current position). • Redress mechanism via LeO for financial loss and distress and inconvenience (up to £50k), payment by insurer in case of intervention. • If payment made by credit card and is between £100 and £30,000 Section 75 of Consumer Credit Act applies. • Enforcement action after investigation alleging dishonesty and failure to safeguard money and assets entrusted by the client.